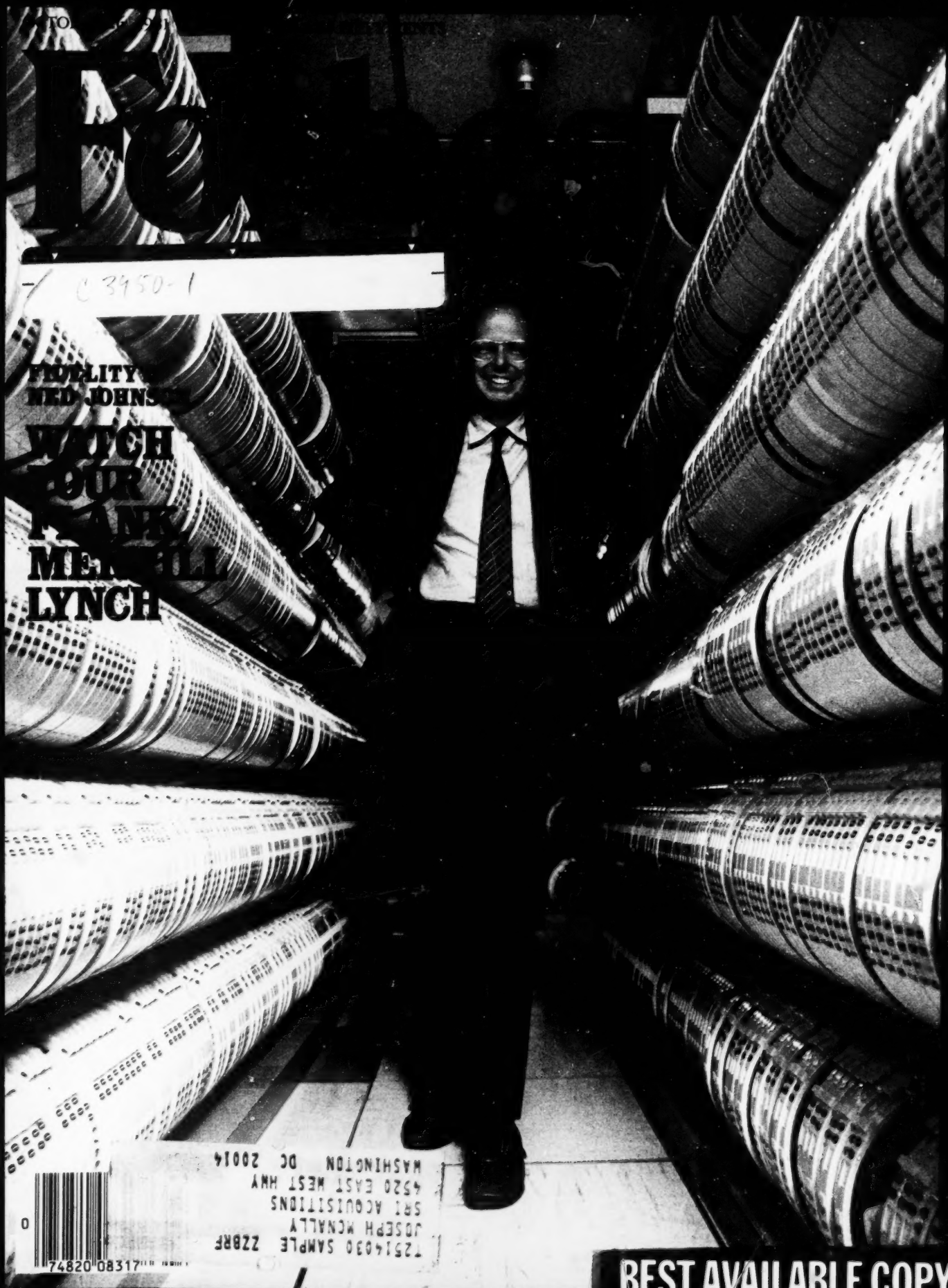
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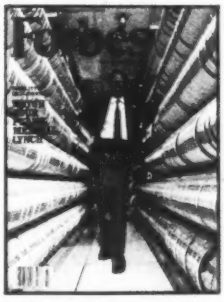

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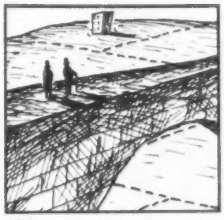

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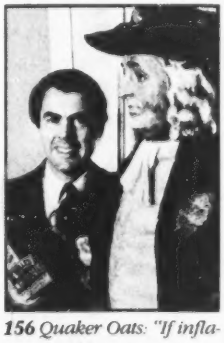

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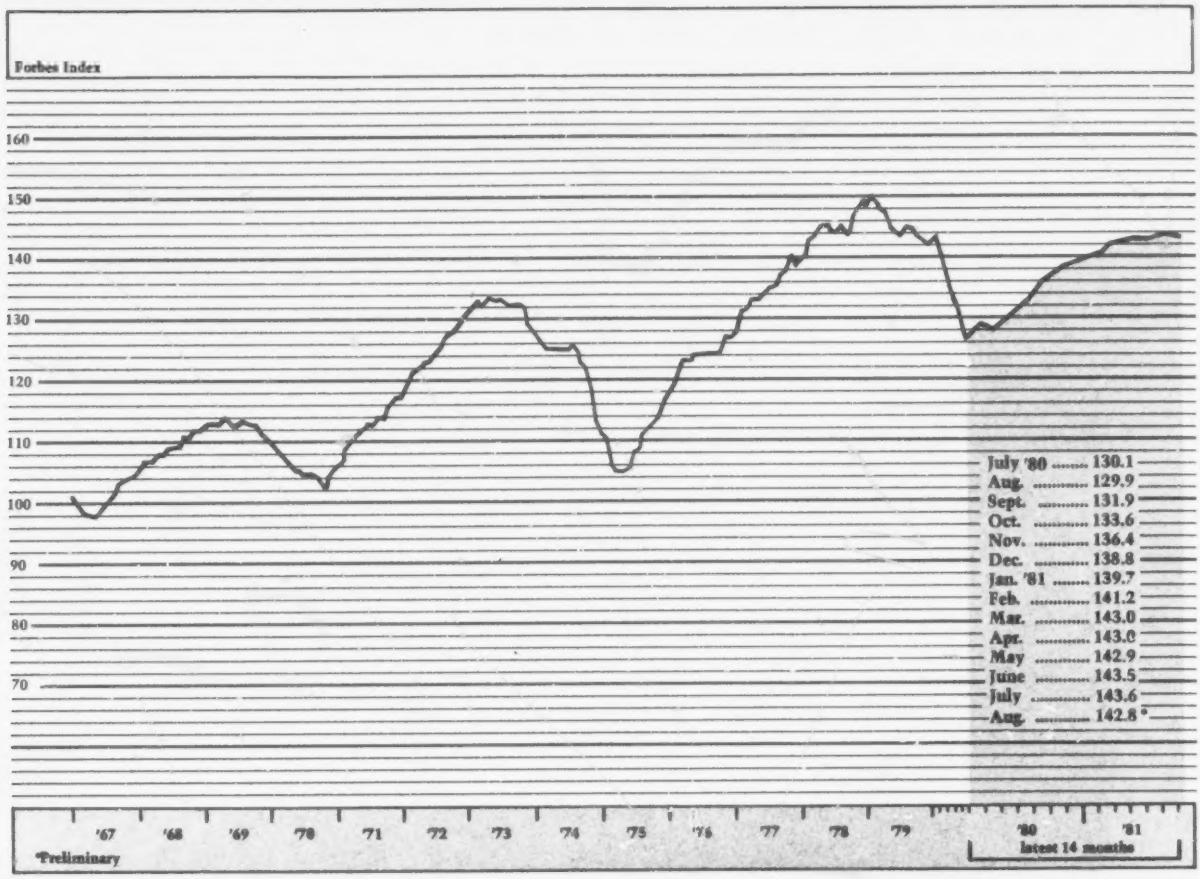
The Forbes Index



The Forbes Index Components

The downturn deepens. The dramatic increase in unemployment claims in August—up 8.1%—was the major cause of a 0.6% drop in preliminary figures for the Forbes Index. If those figures hold, the decrease will be the biggest noticeable drop since March 1980, when the Index began a four-month decline. Other downside indicators: New orders were down, inventories were up, as the pressure of unrelenting high interest rates continued.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

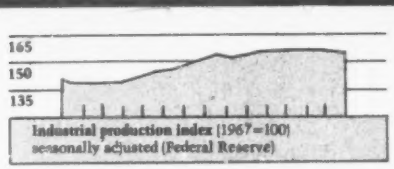
Total retail sales

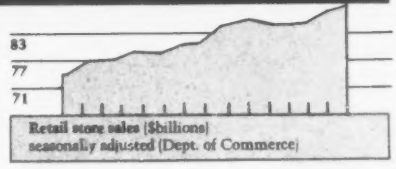
New housing starts

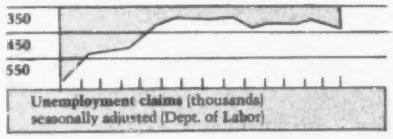
Personal income

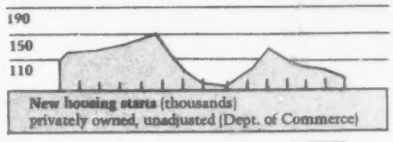
The change in the amount of consumer installment debt outstanding

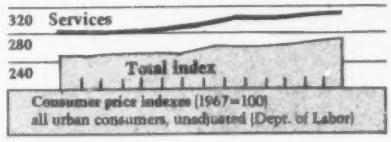
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.

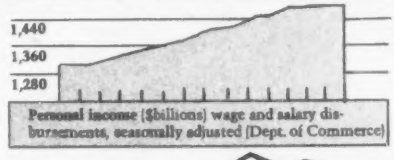


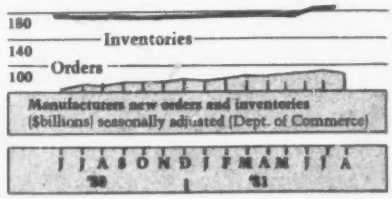


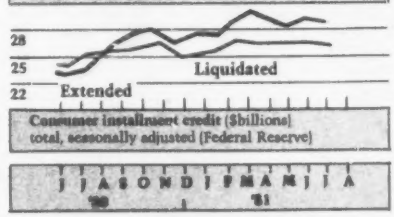












he expects. If it does, he will recoup the carrying costs of his brick inventories and then some. As he sees it: "It hurts me a lot less to bite a few bullets in bad times than to watch profits go out the window in good times."

Meanwhile, the 30% rise in boot sales and earnings allowed Justin Industries' overall earnings to increase in the period. With Nocona and a new $4 million plant in El Paso, Justin is more than doubling the company's 2,000-pair-a-day capacity.

But isn't that a perilously large expansion for a product that is probably just a fad nationwide? Justin, who sports a pair of $400 ostrich-hide boots himself, and his president, Jerry Brownlee, smile. The Southwest is their market, they point out; they sell 80% of their boots there. "We sell more boots in a west Texas town of 2,000 people than in all of Manhattan," says Justin. "And that suits us."

Their views on the boot expansion are akin to their thinking about bricks. "You cannot just flow with these ups and downs in the market," says Justin. "You have got to exploit them."

Justin Industries has spent $25 million modernizing its brick operations during the current slump. It spent another $2 million in July to buy a small Louisiana brickmaker. Far from being disturbed by brick stockpiles, Justin and Brownlee say their goal is to have a half-year's production, or 500 million bricks, in inventory.

With Justin Industries' debt now approaching 50% of capitalization, John Justin, who owns 728,000 shares, appears to be betting the company on that oft-predicted but ever-receding housing upturn. His response to that observation is as much regional as philosophical: "I know there's a lot of negative talk about the U.S. economy. But I have yet to hear a negative word about the Southwest."

The stock market is, for the moment, unimpressed. After hitting an alltime high of 28 in June, Justin stock recently traded over-the-counter at 17. Not to worry, shrugs Jerry Brownlee: "With the housing upturn, we could be a $50 stock with no problem." The only question is, are Justin Industries' top men prophets, or only true believers? ■

United Parcel Service, in a class by itself on the ground, is now making a thoughtful grab for overnight air business—on its own terms if possible, and maybe on Federal Express' terms if necessary.

The brown giant tries wings

By Carol E. Curtis

MAYBE IF THE U.S. Postal Service looked less awful, Greenwich, Conn.-based United Parcel Service wouldn't look so good. But as things stand, UPS looks first-class. The "brown giant," so called for its ubiquitous brown delivery trucks, moved 1.5 billion small packages last year reliably and efficiently—the average "ticket" was just $2.69 per package—had total revenues of $4 billion, up 70% in four years, and earned $189 million, up 108%. This year, volume is running ahead of 1980's, with revenues and profits expected to be up accordingly.

But another part of the package-moving business—overnight air express—is doing even better these days and UPS is making moves to take a piece of it. Its risk to date is measured and modest, $28 million spent on nine used planes it picked up from hard-pressed Braniff and will use as freight planes. But the risk could conceivably escalate hugely—to as much as $500 million, by some estimates—if UPS has to fight for the business on the competition's terms rather than its own.

UPS' way is, you might say, the labor-intensive way. Essentially UPS is a nationwide system of men and trucks, backed up by terminals, sorting and such necessities. It supported last year's $4 billion sales volume on $700 million in net fixed assets; presumably, it wants to keep it that way as it goes after the overnight air express business.

But how can you do that if you have to compete against the likes of Federal Express, the biggest in the field, with nearly $300 million invested in its airplanes and equipment?

A UPS truck in Blue Label Air service
Will overnight customers go for two-day service on the cheap?

UPS' answer, for now, is to sell, not overnight delivery, but two-day delivery. Since last year, when trucking deregulation allowed it for the first time to offer its Blue Label Air service to the Midwest, UPS has been actively promoting dependable delivery within 48 hours. UPS is aware of the huge growth of overnight traffic: Federal Express' revenues have been growing at an average 50%-per-year clip for the past five years. But how many Federal Express customers really need *overnight* service? How many of them would settle for two-day delivery if they could save a lot of money in the process? Federal Express will pick up a 10-pound package in Boston on a Monday and deliver it Tuesday in Los Angeles for $42.45. UPS thinks a lot of Bostonians would cheerfully choose Wednesday delivery by its Blue Label service at a price of only $12.44. "Who would turn down savings up to 70% on air delivery?" reads a recent UPS ad.

"We want to reach CEOs and convince them that overnight is being misused," says John W. Alden, a vice president at UPS. "The decision-makers are not educated as to air choices."

Alden maintains that the reason more overnight customers haven't used Blue Label is their lack of awareness that UPS offers air service. "The biggest problem we have," he says, "is getting the message across on two-day delivery."

UPS is spending nearly $1 million this year to promote Blue Label Air. With its minifleet of used jets harnessed to a system of men and trucks on the ground that is second to none, UPS hopes to divert a substantial piece of overnight traffic to its two-day service at bargain rates and get its share of the fat margins available in air express.

Some observers, however, think that UPS is mistaken to think it can convert customers from overnight to two-day service on the cheap. "The two markets are completely separate," says Alfred Norling, an analyst at Kidder, Peabody & Co. "To try and wean shippers from overnight may be a little off the mark."

UPS itself isn't all that sure either. When the current Blue Label ad campaign winds up in November, says Alden, they will take a close look at the success of their strategy. To go the other way and get into the overnight business will prove capital-intensive indeed. The $500 million estimate that one hears mentioned as the price of admission would purchase a large fleet of jet aircraft and finance establishment of a central hub similar to Federal Express'.

But UPS can afford to play the overnight game, if it should come to that. In the 75 years since its founding in Seattle, it has built a balance sheet that is a model of well-heeled conser-

Fly-by-night profits

The company to beat in the overnight delivery business is clearly Federal Express Corp. Federal's revenues in fiscal 1982 should be about $850 million, up 44% from 1980; net income should be $80 million, up 36%.

The three companies that compete with Federal all provide the same basic service: door-to-door, overnight delivery of packages weighing 70 pounds or less. But each has additional strengths. Emery, for example, gets 41% of its revenues from shipping packages heavier than 70 pounds—which Federal Express won't touch—and 31% from Canadian and overseas business. It is also involved in ocean freight, insurance and customs brokerage. Airborne, too, has significant larger-package and international revenues. The bulk of Purolator's package-express business is in the up-to-400-mile range and moves by truck. Purolator also makes auto products, which accounted for 8% of profits in 1980.

Thus far, these companies have grown, not so much by taking market share away from Federal Express as by slipping into its wake and soaring as the concept of overnight delivery took off. Federal, with its own fleet of 56 planes and a reputation for reliable service, will not be easy to overtake. It's the old story of someone seeing an opportunity, and someone else caught napping. "If it had had the foresight to realize the potential in overnight small package delivery," says one analyst, "Emery could have put Federal out of business."

Federal's top rank in small packages bodes well for its near-term profitability—at least if one view from Wall Street is accurate. Says Oppenheimer's Michael Derchin, "While the freight business is very cyclical, the small-package segment seems to be immune from cycles now because it's in an early growth stage."—**Kevin McManus**

Who's who

Company	Estimated 1981 revenues (millions)	Total 1980 revenues (millions)	% from overnight delivery	Total earnings (millions)	Market	1980 return on equity
Federal Express	$850*	$415.0	100%	$38.7	small packages overnight, domestic	28.9%
Emery Air Freight	600	552.7	35	21.6†	small and large packages, international	30.6
Airborne Freight	235	286.6	85	7.9	small and large packages, international	19.9
Purolator	697	561.3	57	13.5†	small packages ground delivery within 400 miles	12.7

*Fiscal 1982, ending May 31, 1982. Revenues for 1981: $589 million. †Includes nonfreight earnings. *Source: Company reports, Standard & Poor's*

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vatism: a mere $7 million in long-term debt against a net worth of $750 million, with $528 million in cash items alone. It doesn't crow about it because it hasn't, until now, had good reason to do so. It's not a publicly traded company; management and supervisors own all but a few shares of the stock. Reporters are rarely invited to the company's headquarters in Greenwich, Conn., an exclusive New York suburb. Chairman and Chief Executive George Lamb almost never grants interviews. Until recently, UPS spent next to nothing on advertising, not least because the well-known problems of its biggest competitor, the Postal Service, made advertising largely unnecessary.

One way or the other, UPS is not likely to ignore the overnight express market. Despite the huge growth it has seen, margins remain so high that even the U.S. Postal Service is making money at it *(see box, p. 68)*. "With or without one-day delivery," says Paul Schlesinger, who follows the industry for Donaldson, Lufkin & Jenrette, "UPS will be making life more difficult for everyone." ■

The post office fights back

If you are doing business in Boston and you must get a 10-pound package to Los Angeles tomorrow, you probably think of calling Emery Air Freight or Federal Express. But there are alternatives, among them the U.S. Postal Service. Its Express Mail, Uncle Sam's answer to overnight delivery, guarantees next-day delivery (or your money back) of your package from a Boston post office to a Los Angeles address for $20.55—about half the cost of Federal Express.

What's more, the post office is making money at that rate—lots of it. Since Express Mail became a separate class four years ago, it has been highly profitable for the USPS, often surpassing first class. According to Robert Becker, a spokesman for the Postal Service, for every dollar it costs to run it, the Express Mail service is generating $2.39 in revenue. Express Mail volume grew from 8 million letters and parcels under 70 pounds in 1978 to 17.5 million last year, while revenues climbed from $89 million to $184 million in 1980.

There are disadvantages, however. Although the Postal Service has so far installed 826 special Express Mail-only boxes in the business districts of large cities, they can take small packages only. Larger parcels must still be taken to the post office (unless you can get your regular carrier to pick them up). More important, you can't get overnight Express service at most post offices even if you take the package in yourself. Only about 3,500 of the Postal Service's 30,000 post offices have next-day service, meaning it is readily accessible mostly in larger cities. And, of course, if you can live with *two*-day delivery, there's United Parcel Service's Blue Label Air service at $12.42 for 10 pounds, or $8.13 less than Express Mail's overnight.

Clearly, though, Express Mail may provide some viable competition in overnight delivery if the Postal Service can expand it to more of the country while improving its image for reliability. Judging from its success so far, in fact, it may be one of those rare cases where Uncle Sam's old dog learned a new trick.—C.E.C.

Express Mail-only box
Old dog, new trick.

The Streetwalker

there are four different proposals pending in Washington to aid the New Jersey-based holding company.

Hold it! The EEI recommendation may never be carried out. There is no guarantee ratepayers will pay anything soon for the cleanup, and the Reagan Administration has abandoned GPU to its fate. Says Evan I. Silverstein, a utility analyst at L.F. Rothschild, Unterberg, Towbin: "You can't say the solution is here."

Indeed you can't: The EEI recommendation is just that, a recommendation. While there is talk in Washington of making it mandatory, that idea quickly becomes a states' rights issue, since state officials usually determine utility rates. Another bright light that may fade is the return to service of TMI I, the undamaged twin to the TMI II reactor.

TMI I was closed for refueling when the accident occurred 31 months ago and the U.S. Nuclear Regulatory Commission has kept it out of service ever since. GPU expects the Atomic Safety & Licensing Board, an advisory group to the NRC, next month to recommend restarting TMI I. The unit could be producing power early next year. The net savings to GPU of replacing purchased oil- and coal-fired power with nuclear-generated electricity from TMI I would be about $32 million a year. That savings could go to fund the cleanup, with electric rates remaining at their current level. But the New Jersey and Pennsylvania state boards have received angry letters and phone calls from unhappy GPU customers, and passing that $32 million savings on to them could ease the pressure. It would, however, dissipate the money needed to help with the cleanup.

Meanwhile, GPU has $113 million in debt coming due in August 1983 and has no present way to pay it. GPU's accident insurance runs out at about the same time the debt is due and still to be addressed is the fate of TMI II, once it is decontaminated. Estimates are it would take $430 million to return it to service, once the $1 billion cleanup is done. The Reagan Administration has made clear it does not want to be part of anything that smacks of a bailout.

For the immediate future, GPU can remain solvent by drawing on its $200 million revolving credit agreement and additional rate hikes, which for the most part go to pay replacement power costs. "There is now a reasonable balance between the banks and the regulators," says J. Christopher Young, senior vice president of Donaldson, Lufkin & Jenrette Securities Corp. He's right, but balance only deals with GPU's immediate problems.

"While GPU is more stable and some of its short-term problems have been resolved, it still faces an abundance of problems that could, at any time, force insolvency," says Anthony May, vice president and manager of fixed-income research at Rothschild. "It's a schizophrenic situation." Be wary, contrarians. ■

Taxing Matters

How the worst hit bond funds could become the most attractive tax shelters.

One man's poison

By Jay Gissen

THE CARNAGE IN BOND FUNDS is enough to make you avert your eyes. But perhaps you should not avert them... if you do not mind turning another fellow's losses to your own advantage.

At the moment, most of those bond funds are mouth-watering tax shelters for the outsider who believes interest rates are headed south. That's because bond funds, like stock funds, are allowed to offset capital gains with previously realized losses for up to eight years after the loss is incurred. So if interest rates fall and bond prices rise, a fund with large realized losses will be able to plow the resulting capital gains right back into the portfolio tax-free until the day when the shareholder liquidates.

The person who has been in the bond fund all along may hate those realized losses since that is money he will never see again. But for the newcomer those losses offer a wide-open invitation to tax deferral. The 100 bond funds already have something like $1 billion in combined realized losses. Then there's another possible $2 billion in unrealized losses—the aggregate decline in value of bonds in the portfolio that have not yet been sold at a loss. At least some of that $2 billion is likely to be sold off at a loss at some future date, thus generating

additional tax-loss carryforwards for the newcomer. "There's plenty of cushion there for gains," says Vice President Charles Smith of T. Rowe Price in a marvel of understatement.

One of the most common ways that unrealized losses are translated into realized losses in bond funds is by means of a swap. A $100 million face amount bond that has declined in value to $50 million can be exchanged for a $50 million face amount bond, presumably bearing a higher interest. In that way a bond fund generates valuable carryforwards and upgrades its portfolio at the same time.

Curiously, the bond fund losses are so huge that they threaten to turn the funds into a new type of instrument. In the past a bond fund that had a capital gain and no tax-loss carryfor-

Comforting realizations

The larger a bond fund's realized losses—shown below for 20 of the largest funds—the more future income that fund can shelter when interest rates turn down. Naturally, some unrealized losses can be converted into tax-loss carryforwards as well. If anything, the amounts below understate the total tax-loss carryforwards to date because losses for some of them have mounted since the funds last reported.

Fund name	Assets as of 6/30/81 (millions)	% change 1981 vs 1980	Losses realized (millions)	Losses unrealized (millions)	Losses as of
American General Bond Fund	$160.3	-15.9%	$11.0	$ 34.0	8/31
American General High Yield Investments	234.6	-6.6	29.5	42.1	8/31
Bond Fund of America	164.7	-8.7	23.6	.5	6/30
Colonial Income Fund	160.1	-23.4	74.3	42.2	9/30
First Investors Fund for Income	569.2	-2.3	4.1	98.1	6/30
IDS Bond Fund	533.2	+11.1	13.4	107.2	2/28
InterCapital High Yield Securities	167.5	-16.4	1.3	12.6	2/28
InterCapital Income Securities	137.7	-17.6	8.2	4.3	6/30
Investors Selective Fund	517.8	-10.3	56.3	125.6	5/31
John Hancock Bond Fund	286.6	+9.2	5.7	88.1	6/30
Keystone Custodian Funds B-4	383.2	-8.3	5.6	56.8	7/31
Lord Abbett Bond Debenture Fund	174.5	-9.2	—	22.2	6/30
Massachusetts Financial Bond Fund	172.3	-6.0	6.7	25.8	8/31
Massachusetts Financial High Income Trust	120.8	+36.5	5.4	12.3	8/31
Merrill Lynch Corp Bond Fund High Income	232.7	-13.6	13.0	25.0	9/30
Oppenheimer High Yield Fund	117.5	+2.9	13.7	28.3	9/30
Putnam High Yield Trust	275.0	+2.5	43.8	31.9	8/31
T Rowe Price New Income Fund	352.1	-10.3	46.1	26.8	6/30
United Bond Fund	218.4	-17.1	59.2	59.5	6/30
United High Income Fund	160.8	+55.2	—	6.5	3/31

Taxing Matters

capital gain and no tax-loss carryforward generally paid its shareholders a capital gains distribution. But now, with such enormous carryforwards, it scarcely makes any sense to pay shareholders a capital gains distribution on which they can be taxed. Why not simply keep those gains in the portfolio where they are sheltered from tax? If that happens, you get a strange thing: a growth-bond fund. "Until recently people invested in bond funds for the income stream," says Steven Norwitz, a vice president with T. Rowe Price. "Now they may be looking at them for potential capital appreciation."

Not everyone is going to be happy about that, to be sure. "A lot of people like to get the extra income even though they pay taxes on it," says Warren Greene, president of American Investors. That is particularly true now, with the capital gains tax down from 28% to 20%. But some bond fund men tend to look upon it as their sacred duty to protect their shareholders from themselves. Says Charles Morgan, senior vice president of Keystone Custodian Funds, "The advantage [of the carryforwards] is that the investor doesn't get a capital gain distribution, pay tax on it and then go waste it."

Which of the 20 giant bond funds listed here look most attractive as tax shelters? Although both unrealized losses and realized losses are lumped together in calculating daily share prices, those funds with large realized losses, such as Colonial Income, Investors Selective and United Bond, offer the better bet. Obviously, as interest rates fall, some of those unrealized losses are going to erode. That may please the long-term shareholder, but it will certainly not please you, the tax-shelter seeking newcomer. So InterCapital High Yield Securities probably will not be your first choice.

Of course, if you are a pessimist and you think that interest rates are going to remain stuck where they are or climb even higher, then look not for opportunity in this valley of the fallen.

Can you beat a pair?

About a year ago, FORBES reported a growing interest in so-called Siamese shares, a device that could cut a corporation's taxes to zero. It looked too good to be true. Now Treasury, protecting its hold on these tax dollars, is getting ready to torpedo the device, and the pioneer in paired shares—Sea Containers Group—is preparing to abandon ship.

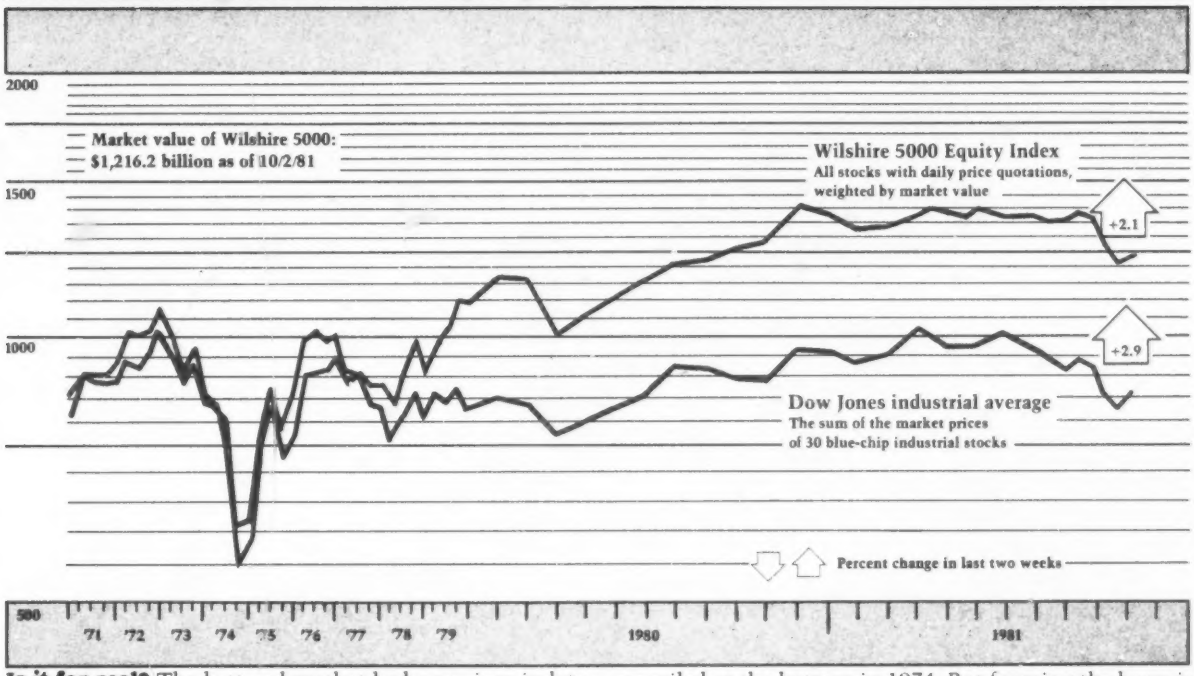
Briefly, the scheme works like this: A parent company separates out a subsidiary and gives it to its shareholders. The spinoff is based in a tax-free, non-U.S. spot such as Bermuda. The two companies share the same stockholders and president. And that's not all they share. All the taxable income is lumped in the spinoff and any tax losses are given to the taxable parent company. Frequently, the two issues of stock—formerly parent and sub—are actually printed back to back; thus the name "Siamese shares" or "paired shares."

Companies that tried the technique grew to love it, but the IRS grew to hate it. So, soon after the paired-share gambit became popular, the IRS stopped issuing letter rulings for the common paired-share REITs. Next, Representative Dan Rostenkowski (D–Ill.) introduced a bill that would have considered both parent and spinoff as U.S. companies and thus totally taxable. The Rostenkowski bill died, but now the boys at Treasury are getting set for what they hope is the final assault—their own death-to-paired-shares bill.

The company that originated the use of the technique, Sea Containers, is already sounding retreat. President James Sherwood's tough talk of last year—"The IRS has absolutely no power"—is gone, and the company is making preparations for splitting the Siamese-twin shares—de-pairing—should that become necessary. That would make it impossible to move profits out of the country and thereby avoid taxes.

Back to the tax shelter drawing board.—**Jeff Blyskal**

The Forbes/Wilshire 5000 Review



Is it for real? The battered market had a reprieve in late September and early October, with a 2.1% two-week rally erasing some of the losses the Wilshire Index has suffered since June. The rally so far is unconvincing. It has erased only a small fraction of the $183 billion that has melted off the all-encompassing index this summer; NASDAQ stocks have sat out the rally; and the recovery in the ASE index was unpersuasive. In a major sense, the upward movement was a blue-chip, DJI-type rally.

But, of course, all rallies are incomplete and unpersuasive in the early stages. Time alone will tell. Favoring the bulls are the market's extremely low price/earnings ratios—7.7 for the S&P's 500. This is close to the ratio that prevailed at the bottom in 1974. But favoring the bears is the fact that most corporate earnings are turning soft and that competition from bond yields remains severe. Could we have a rising market in spite of declining earnings? Could P/E ratios rise on prospects of a lower inflation rate? William J. Gillard, Kidder Peabody's astute analyst, thinks the prospects are good that this could happen, that P/Es will improve and swing the market over to the bull side. Other analysts are not so sure. They argue that it is tough for a market to buck falling earnings. The puzzle is this: Was the rally in the Dow stocks the preliminary to a broader rally? Or was the failure of the secondary stocks to follow a sign that the rally did not have much steam behind it?

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	–1.6	–0.1	–1.0	–8.8	–2.8
in last 52 weeks	–8.0	–9.5	–7.9	–9.6	–4.7

Stock performance based on five key investor yardsticks

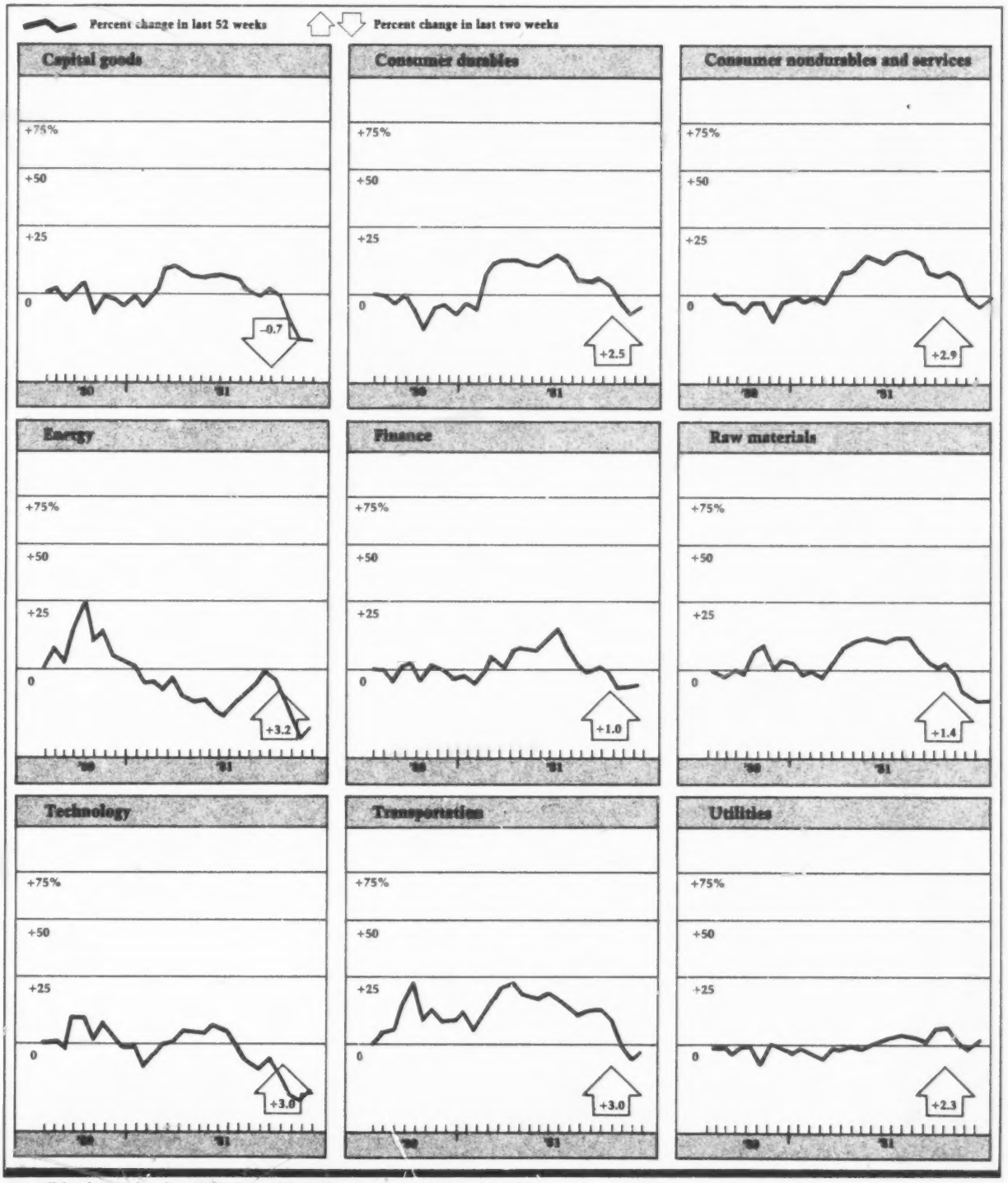
Percent change	Volatility *		P/E multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–2.6	–2.0	–4.2	–3.5	–1.4	–3.5	–3.4	–2.0	–2.1	–3.4
in last 52 weeks	–4.8	5.7	–9.7	–0.2	–0.2	1.4	–3.2	2.6	–7.8	5.3

* A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.

† A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 10/2/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Not gloomy enough? Encouraging was the fact that most industries participated in the rally even if all markets did not. The battered energy stocks showed the largest gains and only capital goods declined: The persistence of tight money seems to doom capital goods prospects for the immediate future. The utility stocks did well, continuing the relative strengthening they have shown all summer; extremely interest-sensitive, the utility stocks perform relatively well when interest rates show signs of topping. Technology and transportation also looked good. It remains to be seen though whether we are witnessing a major turnaround or just a rally in a bear market. Unfortunately, the gloom does not yet seem pervasive enough to identify a major bottom.



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